

C. DUKES SCOTT
EXECUTIVE DIRECTOR

1101 Main Street, Suite 900
Columbia, SC 29201



DANE ARNETT
CHIEF OF STAFF

Phone: (803) 737-0800
Fax: (803) 737-0977

JAY R. JASHINSKY, CPA
DIRECTOR OF AUDITING

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VIA ELECTRONIC FILING

Charles L.A. Terreni, Esquire
Chief Clerk/Administrator
Public Service Commission of South Carolina
101 Executive Center Dr., Suite 100
Columbia, SC 29210

VIA U. S. MAIL

K. Chad Burgess, Esquire
Senior Counsel
South Carolina Electric and Gas Company
1426 Main Street
MC 130
Columbia, South Carolina 29201

Re: Report of the South Carolina Office of Regulatory Staff's Examination of South Carolina Electric and Gas Company's Monitoring Report under the Natural Gas Rate Stabilization Act for the Twelve-Month Period Ending March 31, 2009

Docket No. 2009-6-G

Gentlemen:

The South Carolina Office of Regulatory Staff ("ORS"), in accordance with the Natural Gas Rate Stabilization Act, S.C. Code Ann §§ 58-5-400, et seq. (Supp. 2008), ("RSA" or the "Act"), conducted an examination of South Carolina Electric and Gas Company's ("SCE&G" or the "Company") Monitoring Report for the twelve-month period ended March 31, 2009. The examination was conducted for the purpose of determining the Company's compliance with Section 58-5-430 and Section 58-5-440 of the Act.

The Company reported in its March 31, 2009 Quarterly Monitoring Report an As Adjusted rate of return and return on common equity of 6.05% and 6.36%, respectively. The Company's calculation of additional revenue required to restore return on common equity to the 10.25% level authorized in its most recent rate case (Order No. 2005-619 issued in Docket No. 2005-113-G on October 31, 2005) was \$13,355,010.

Based upon its examination, ORS is proposing certain adjustments (see Schedule 2) to bring the Company's Monitoring Report into conformance with Section 58-5-430 and Section 58-5-440 of the Act. As a result of these accounting and pro forma adjustments, ORS calculated the Company's rate of return and return on common equity as 6.10% and 6.45%, respectively

Therefore, in accordance with the guidelines of the Act, ORS agrees that the Company is entitled to an increase in rates sufficient to achieve a return on common equity equaling 10.25% as authorized in Order No. 2006-553. Accordingly, based on ORS' examination of the Company's filing, ORS recommends that the Company's request be decreased \$348,006 resulting in an increase to revenues of \$13,007,004. After the proposed increase, the Company will have the opportunity to earn a rate of return and return on common equity of 7.97% and 10.25%, respectively.

The following is a summary of the Dockets relative to the Company's most recent rate adjustments:

Date of Order	Docket Number	Amount Requested	Amount Granted	Approved Return on Equity
11-30-1989	1989-245-G	\$11,333,163	\$10,139,314	12.75%
10-31-2005	2005-113-G	\$28,482,731	\$22,857,839	10.25%
09-27-2006	2006-157-G	\$18,175,727	\$17,437,394	10.25%
10-12-2007	2006-157-G	\$6,868,824	\$4,555,622	10.25%
10-14-2008	2006-157-G	\$4,735,547	\$3,721,724	10.25%

The following is a description of Schedules prepared by ORS as a result of its examination of the Company's filing:

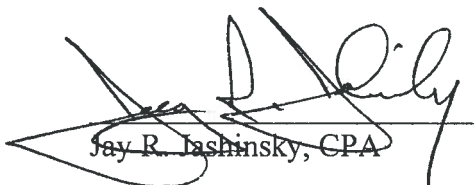
Schedule 1 presents the Company's operating experience, rate base and rates of return for the year ended March 31, 2009, and the accounting and pro forma adjustments which ORS has determined are necessary to normalize the Company's operations both before and after the effect of the requested increase. Utilizing the per book rate base of \$437,730,609 and income of \$28,237,578, a rate of return was calculated on per book operations of 6.45% with a corresponding return on common equity of 7.17%. ORS accounting and pro forma adjustments decreased Net Income for Return to \$26,390,864 and decreased rate base to \$432,670,638. A rate of return of 6.10% and a return on common equity of 6.45% were computed by ORS. After the adjustments for the proposed margin increase of \$13,007,004, Net Income for Return increased to \$34,483,891. The rate of return on rate base computed by ORS after the adjustments for the proposed increase is 7.97%. The return on common equity is 10.25%.

Schedule 2 presents an explanation of the accounting and pro forma adjustments ORS considers necessary for the Company's report to conform with Section 58-5-430 and Section 58-5-440 of the Act. For comparative purposes, the adjustments of both the Company and ORS are presented.

Schedule 3 presents the calculation of the weighted average cost of capital used by the Company in calculating its return on common equity both before and after its proposed increase. The rate base, as shown on Schedule 1, is allocated between long term debt, preferred stock and common equity according to the respective ratios as computed using the Company's capital structure as of March 31, 2009. The amount of total income for return necessary to cover an embedded cost rate of 5.73% on long term debt is computed to be \$12,081,155. The amount of total income for return necessary to cover an embedded cost rate of 6.43% on preferred stock is computed to be \$536,940. The remainder of the total income for return of \$13,772,769 is income to common equity. Such remainder produced a return of 6.45% on common equity before the requested increase. The overall cost of capital after accounting and pro forma adjustments, but prior to the requested increase, is 6.10%. Such overall cost equals the rate of return on rate base shown on Schedule 1.

After the proposed increase of \$13,007,004, income available to common equity increases to \$21,865,796 and return on common equity increases to 10.25%. Overall cost of capital as detailed in Schedule 3 equals 7.97%. Such overall cost of capital equals the rate of return on Schedule 1.

Respectfully submitted by,



Jay R. Tashinsky, CPA

- and -



Shannon Bowyer Hudson, Esquire

South Carolina Electric & Gas Company
Operating Experience - Total Gas
For the Test Year Ended March 31, 2009

<u>Description</u>	<u>Per Regulatory Books</u>	<u>ORS Accounting & Pro Forma Adjustments</u>	<u>As Adjusted</u>	<u>Proposed Increase</u>	<u>Total After Proposed Increase</u>
<u>Operating Revenues</u>	\$ 526,105,012	\$ 2,183,365 (A)	\$ 528,288,377	\$ 13,007,004 (M)	\$ 541,295,381
<u>Operating Expenses:</u>					
O&M Expenses - Cost of Gas	388,598,380		388,598,380		388,598,380
O&M Expenses - Other	62,923,652	44,065 (B)	62,967,717		62,967,717
Dep. & Amort. Expenses	20,242,265	3,344,004 (C)	23,586,269		23,586,269
Taxes Other Than Income	16,003,458	1,664,945 (D)	17,668,403	65,373 (N)	17,733,776
State Income Taxes	1,311,316	(136,423) (E)	1,174,893	647,082 (O)	1,821,975
Federal Income Taxes	8,995,197	(909,689) (F)	8,085,508	4,303,092 (P)	12,388,600
<u>Total Operating Expenses</u>	498,074,268	4,006,902	502,081,170	5,015,547	507,096,717
<u>Total Operating Income</u>	28,030,744	(1,823,537)	26,207,207	7,991,457	34,198,664
Customer Growth	356,299	(23,177) (G)	333,122	101,570 (Q)	434,692
Interest on Customer Deposits	(149,465)	-	(149,465)		(149,465)
<u>Net Income for Return</u>	28,237,578	(1,846,714)	26,390,864	8,093,027	34,483,891
<u>Rate Base:</u>					
Gross Plant in Service	757,225,205	(1,560,675) (H)	755,664,530		755,664,530
Reserve for Depreciation	(296,429,314)	(3,131,468) (I)	(299,560,782)		(299,560,782)
Net Plant in Service	460,795,891	(4,692,143)	456,103,748		456,103,748
Construction Work in Process	6,503,016	(345,197) (J)	6,157,819		6,157,819
Accum. Deferred Income Taxes	(73,006,235)		(73,006,235)		(73,006,235)
Environmental Costs	4,453,806		4,453,806		4,453,806
OPEB's	(11,047,136)	(28,139) (K)	(11,075,275)		(11,075,275)
Reg. Asset for Unrcvrd PAP	788,138		788,138		788,138
Injuries & Damages	(774,613)		(774,613)		(774,613)
Materials & Supplies	45,732,252		45,732,252		45,732,252
Total Working Capital	7,865,456	5,508 (L)	7,870,964		7,870,964
Prepayments	10,592,448		10,592,448		10,592,448
Average Tax Accruals	(6,810,406)		(6,810,406)		(6,810,406)
Customer Deposits	(7,362,008)		(7,362,008)		(7,362,008)
<u>Total Rate Base</u>	437,730,609	(5,059,971)	432,670,638	-	432,670,638
<u>Rate of Return</u>	6.45%		6.10%		7.97%
<u>Return on Common Equity</u>	7.17%		6.45%		10.25%

South Carolina Electric & Gas Company
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended March 31, 2009

<u>Description</u>		<u>Per SCE&G</u>	<u>Per ORS</u>
(A) <u>Operating Revenues</u>			
1	To annualize revenues for lateral transfers from contract rates to published tariff rates	\$ 326,366	\$ 326,366
2	To adjust annualized approved revenue increase for 2008 RSA proceeding	1,404,490	1,404,490
3	To adjust revenues for Urquhart Laterals	452,509	452,509
	<u>Total Operating Revenues</u>	\$ 2,183,365	\$ 2,183,365
(B) <u>Operating and Maintenance Expense</u>			
4	To annualize wages and benefits	\$ 598,896	\$ 598,896
5	To remove 50% of employee & officer bonuses	(1,010,168)	(1,010,168)
6	Annualize other post employment benefits	45,569	45,569
7	To remove operating expenses related to employee clubs	(70,833)	(70,833)
8	To adjust for Customer Awareness Campaign expenses	261,865	261,865
9	To record adjustment for Pension and Health Care	(264,687)	(264,687)
10	To Annualize Insurance Expense	6,558	6,558
11	To Adjust MGP Legal Fees to the actual amount removed by the company in this review period	855,852	855,852
12	To remove non-allowable expenses for ratemaking purposes		
	a. To remove Legal Fees associated with SCANA Propane from SCE&G Gas Operating and Maintenance Expenses. These items were identified by the company as non-allowable.		(97,037)
	b. Other non-allowable items		(281,950)
	<u>Total Operating and Maintenance Expense</u>	\$ 423,052	\$ 44,065
(C) <u>Depreciation and Amortization Expense</u>			
13	To remove depreciation expense related to employee clubs	\$ (19,855)	\$ (19,855)
14	To annualize depreciation	3,363,859	3,363,859
	<u>Total Depreciation and Amortization Expense</u>	\$ 3,344,004	\$ 3,344,004
(D) <u>Taxes Other Than Income</u>			
15	To adjust taxes related to lateral Customer Revenue adjustment for tariff rates	\$ 1,640	\$ 1,640
16	To annualize payroll taxes for wages and benefits	42,568	42,568
17	To remove 50% of payroll taxes related to employee & officer bonuses	(63,191)	(63,191)
18	To annualize property tax expense	1,674,595	1,674,595
19	To adjust taxes for the annualized approved revenue increase from 2008 RSA proceeding	7,059	7,059

South Carolina Electric & Gas Company
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended March 31, 2009

<u>Description</u>		<u>Per SCE&G</u>	<u>Per ORS</u>
(L)	<u>Working Capital</u>		
32	To adjust cash working capital	\$ 52,882	\$ 5,508
	<u>Total Working Capital</u>	<u>\$ 52,882</u>	<u>\$ 5,508</u>
(M)	<u>Operating Revenues for Proposed Increase</u>		
33	To adjust revenues for the proposed increase	\$ 13,355,010	\$ 13,007,004
	<u>Total for Proposed Increase</u>	<u>\$ 13,355,010</u>	<u>\$ 13,007,004</u>
(N)	<u>Taxes Other Than Income</u>		
34	To adjust gross receipts tax for the proposed increase	\$ 67,122	\$ 65,373
	<u>Total Taxes Other Than Income</u>	<u>\$ 67,122</u>	<u>\$ 65,373</u>
(O)	<u>State Income Taxes for Proposed Increase</u>		
35	To adjust state income taxes (rate of 5%) to reflect the impact on income for adjustments to operating revenues and expenses related to the proposed increase	\$ 664,394	\$ 647,082
	<u>Total State Taxes for Proposed Increase</u>	<u>\$ 664,394</u>	<u>\$ 647,082</u>
(P)	<u>Federal Income Tax for Proposed Increase</u>		
36	To adjust federal income taxes (rate of 35%) to reflect the impact on income for adjustments to operating revenues and expenses related to the proposed increase	\$ 4,418,176	\$ 4,303,092
	<u>Total Federal Income Tax for Proposed Increase</u>	<u>\$ 4,418,176</u>	<u>\$ 4,303,092</u>
(Q)	<u>Customer Growth</u>		
37	To adjust customer growth for adjustments to operating revenues and expenses related to the proposed increase	\$ 104,298	\$ 101,570
	<u>Total Customer Growth for Proposed Increase</u>	<u>\$ 104,298</u>	<u>\$ 101,570</u>

South Carolina Electric & Gas Company
Weighted Cost of Capital
As of March 31, 2009

Description	Capital Structure	Ratio	Regulatory Per Books				As Adjusted				After Proposed Increase			
			Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return
Long-Term Debt	\$ 2,871,488,400	48.73%	\$ 213,306,126	5.73%	2.79%	\$ 12,222,441	\$ 210,840,402	5.73%	2.79%	\$ 12,081,155	\$ 210,840,402	5.73%	2.79%	\$ 12,081,155
Preferred Stock	113,758,800	1.93%	8,448,201	6.43%	0.12%	543,219	8,350,543	6.43%	0.12%	536,940	8,350,543	6.43%	0.12%	536,940
Common Equity	2,907,296,192	49.34%	215,976,282	7.17%	3.54%	15,471,918	213,479,693	6.45%	3.19%	13,772,769	213,479,693	10.25%	5.06%	21,865,796
Totals	\$ 5,892,543,392	100.00%	\$ 437,730,609		6.45%	\$ 28,237,578	\$ 432,670,638		6.10%	\$ 26,390,864	\$ 432,670,638		7.97%	\$ 34,483,891

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA

DOCKET NO. 2008-4-G

IN RE:)	
Application of South Carolina Electric & Gas)	CERTIFICATE OF
Company to Have the Terms of the Natural Gas)	SERVICE
Rate Stabilization Act Apply to the Company's)	
Rates and Charges for Gas Distribution Services)	
(Years 2009 - Present))	

This is to certify that I, Chrystal L. Morgan, an employee with the Office of Regulatory Staff, have this date served one (1) copy of the **SOUTH CAROLINA OFFICE OF REGULATORY STAFF'S REPORT** in the above-referenced matter to the person(s) named below by causing said copy to be deposited in the United States Postal Service, first class postage prepaid and affixed thereto, and addressed as shown below:

Catherine D. Taylor , Senior Counsel
South Carolina Electric & Gas Company
1426 Main Street, M/C 130
Columbia, SC, 29201

K. Chad Burgess , Senior Counsel
South Carolina Electric & Gas Company
1426 Main Street, MC 130
Columbia, SC, 29201

Mitchell Willoughby, Esquire
Willoughby & Hoefer, P.A.
Post Office Box 8416
Columbia, SC, 29202


Chrystal L. Morgan

September 1, 2009
Columbia, South Carolina